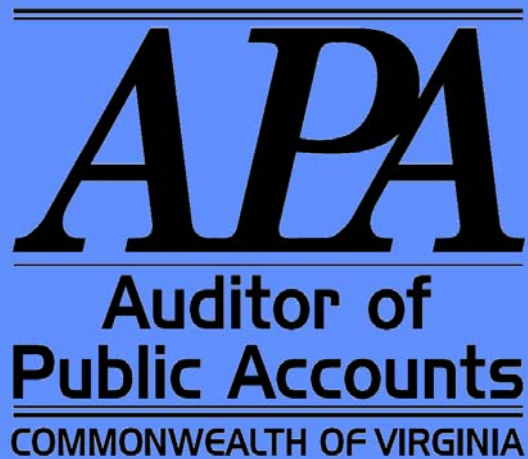


ACCOUNTS RECEIVABLE REVIEW

NOVEMBER 2010



AUDIT SUMMARY

We have completed our final review of the Commonwealth of Virginia's accounts receivable. The final review addresses receivables reported as of June 30, 2009, and June 30, 2010, and the best practices used to collect those receivables. This report does not include amounts due to the Department of Taxation and unpaid fines and costs owed to the Virginia Courts or the processes used to collect those receivables.

During the fiscal year, the Commonwealth of Virginia had account receivables of over \$1 billion, excluding unpaid taxes to the Department of Taxation and unpaid fines and costs due the Virginia Courts. The Commonwealth is not able to extend credit only to creditworthy citizens by performing credit checks and establishing an individual's credit worthiness prior to providing services. In many cases, the Commonwealth is required to provide services to indigent individuals who otherwise cannot afford services.

We identified six general best practices that agencies could utilize in order to better manage their receivables. Generally, we found that the agencies reviewed have implemented the identified best practices. However, we identified some opportunities for the Commonwealth to improve the administration of accounts receivables.

The Commonwealth should evaluate the current collection process including looking for ways to share resources and information and ensuring they are adequately using the resources available to them such as private collection agencies, the Division of Debt Collection, and the debt set-off program. Additionally, the Commonwealth should determine if it is cost efficient to have multiple collection service contracts or whether state agencies should operate from one contract. Agencies having an accounts receivable administration process should have individuals properly trained in the Commonwealth's policies and procedures and updated on industry best practices. Lastly, the Comptroller should determine if the Treasury Offset Program would be beneficial for the Commonwealth. This would require a joint effort between the Comptroller and the Department of Taxation since there would be costs associated with implementing and participating in the program.

Our interim accounts receivable report issued in May 2009 is available on our website at www.apa.virginia.gov. The interim report identifies that, of the agencies reviewed, most amounts due and collected by the Commonwealth are part of agencies' and institutions' normal operations and will not provide the General Fund of Commonwealth substantial resources. The report also recommends several changes which would enhance a reader's understanding of the amounts due and the ability to monitor the collections of the various agencies and institutions involved in the generation and collection of these receivables.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
INTRODUCTION	1-3
BEST PRACTICES ANALYSIS	4-11
RECOMMENDATIONS FOR IMPROVEMENT	12-15
TRANSMITTAL LETTER	16-18
DEPARTMENT OF ACCOUNTS RESPONSE	19
RESPONSIBLE OFFICIALS	20
APPENDIX A	21

INTRODUCTION

The Code of Virginia requires state agencies and institutions to take all appropriate and cost-effective actions to aggressively collect all accounts receivable owed to the Commonwealth. In addition, the Code of Virginia requires the Department of Accounts (Accounts), in conjunction with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program.

Unlike many businesses, the Commonwealth is not able to extend credit only to creditworthy citizens by performing credit checks and establishing an individual's credit worthiness before providing services. In many cases, the Commonwealth must provide services to indigent individuals who otherwise cannot afford services. It is the responsibility of state agencies and institutions to establish internal policies and procedures to manage and collect those past due accounts.

In May 2009, we issued an interim report on the Commonwealth of Virginia's accounts receivable that resulted in several recommendations to improve the reporting of the Commonwealth's receivables. This report contains the results of our final review of the Commonwealth's accounts receivable, where we identified industry best practices for managing accounts receivables and how agency's procedures measure up to those best practices.

Objectives

Our interim review had four objectives:

1. Determine the role of the agencies involved in the receivables process.
2. Classify receivables as of June 30, 2008.
3. Determine current collection processes.
4. Evaluate the current receivable reporting method.
5. Recommend improvements for the reporting of the Commonwealth's receivables.

Our final review had three objectives:

1. Identify industry best practices.
2. Evaluate agency's procedures in relation to identified best practices.
3. Recommend improvements for adhering to industry best practices.

Scope and Methodology

Our review consisted of a two part analysis of the Commonwealth's receivables. The interim review reported on receivables as of June 30, 2008. In the interim report, we identified 13 agencies whose accounts receivable totaled \$1.3 billion, which was approximately 89 percent of the Commonwealth's total gross receivables. The interim review identified the various types of receivables and why individuals and businesses owe the Commonwealth money. When collected, the agencies or institutions primarily use the receivables to cover the costs of services already provided or reimburse other entities. Therefore, most amounts due and collected by the Commonwealth are part of agencies' and institutions' normal operations and will not provide the General Fund of Commonwealth substantial resources.

In 2009 and 2010, the same 13 agencies held the majority of the Commonwealth's receivables balances. Given the diverse nature and size of the receivables, we identified several best practices that agencies could utilize to collect on those past due accounts. The following table illustrates the diverse nature and size of the Commonwealth's receivables.

With the exception of Transportation – Metropolitan Washington Airports Authority (MWAA) Contribution and Transportation – Project Participation, we addressed the nature of these receivables in the interim review. Transportation – MWAA Contribution consists of funds to be paid to Transportation for Dulles Airport access improvements under an agreement entered into on December 9, 2009. Transportation – Project Participation represents funds Transportation receives from contractors to fund projects.

Accounts Receivable By Type

Type of Receivable	2008	2009	2010
Federal Reimbursement Grants	\$ 305,066,832	\$ 278,048,939	\$ 433,069,706
Patient Services	295,789,776	316,802,446	331,514,156
Child Support Enforcement	288,871,096	334,235,716	365,091,687
Unemployment – Taxes Due	74,393,678	79,310,362	123,831,304
Interagency Receivables	67,558,665	76,281,666	69,808,465
Provider Overpayments	49,893,894	56,336,501	70,302,966
Lottery Sales	48,341,989	53,055,685	56,472,984
Medical Assistance – Third Party Liability	33,991,532	36,645,701	36,751,894
Transportation – Project Participation	-	3,594,485	13,995,503
Tuition and Fees	19,914,046	22,145,061	34,497,933
Unemployment – Benefit Overpayments	19,709,043	25,006,106	41,879,533
Transportation – Project Settlements	15,259,262	16,675,406	15,112,510
Higher Education – Outside Grants	14,451,256	17,536,096	24,647,108
Higher Education – Student Loans	12,724,256	14,528,758	15,851,563
SNAP and TANF Overpayments	11,287,102	28,132,567	30,240,163
Transportation – MWAA Contribution	-	-	12,626,409
Higher Education – Miscellaneous	9,657,663	8,965,929	8,509,697
E-911 Wireless Service Providers	8,377,279	4,861,173	4,713,228
Transportation – Miscellaneous	6,496,374	5,762,593	8,303,346
Transportation – Damage Payments	6,440,657	7,644,170	7,895,314
Transportation – Locality Payments	5,361,292	6,039,254	-
Other	1,240,222	3,527,157	1,905,380
Subtotal	1,295,019,944	1,395,135,769	1,707,020,849
Remaining Agencies	165,137,629	170,776,987	163,944,319
Total	<u>\$1,460,157,573</u>	<u>\$1,565,912,756</u>	<u>\$1,870,965,168</u>

Source: Accounts' Web-based Accounts Receivables System

As mentioned, 13 agencies make up the vast majority of the receivables listed above. Below is a list of the agencies and their respective receivable balances as of June 30 for fiscal years 2008 through 2010. Appendix A illustrates the age of the agency's accounts receivable.

Accounts Receivables By Agency

<u>Agency</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Department of Social Services	\$ 339,676,672	\$ 375,856,084	\$399,047,556
University of Virginia Medical Center	223,297,258	271,247,823	293,519,767
Department of Transportation	142,367,009	134,262,463	190,877,222
Department of Education – Aid to Localities	124,890,364	143,747,632	255,402,435
Virginia Employment Commission	94,102,719	106,411,461	168,076,725
Department of Medical Assistance Services	84,689,484	92,982,202	107,054,860
Department of Behavioral Health	72,492,518	45,554,622	37,994,388
Virginia Tech	49,456,000	45,389,560	46,344,550
Virginia Lottery	48,341,989	53,055,685	56,472,984
University of Virginia – Academic	33,911,496	37,216,196	61,107,530
Virginia Information Technologies Agency	32,780,146	31,140,132	29,348,101
Department of Human Resource Management	29,804,904	35,561,336	31,651,995
Virginia Commonwealth University	<u>19,209,375</u>	<u>22,710,573</u>	<u>30,122,736</u>
Subtotal	1,295,019,944	1,395,135,769	1,707,020,849
Remaining Agencies	<u>165,137,629</u>	<u>170,776,987</u>	<u>163,944,319</u>
Total	<u>\$1,460,157,573</u>	<u>\$1,565,912,756</u>	<u>\$1,870,965,168</u>

Source: Accounts' Web-based Accounts Receivables System

BEST PRACTICES ANALYSIS

Best practices are not a definitive answer to solving the problems of business processes; however, they do provide a basis for improving business practices. For collecting accounts receivable, there are a broad range of best practices one can consider. Given the diverse nature of the agencies that have accounts receivable, our research identified six general best practices that agencies should utilize to better manage and collect past due accounts. Agencies could utilize a combination of these and other best practices to manage and collect past due accounts more efficiently and effectively.

Collection efforts are not required for all of the Commonwealth's receivables. In the interim report, we discussed that there are receivables reported in the Web-based Accounts Receivables System that do not necessarily reflect amounts that are past due. Of the \$1.8 billion of receivables reported as of June 30, 2010, \$344 million is over 60 days past due. Some of the receivables reported are a result of the agencies' business cycle. Depending on the agency's type of receivables, the collection process is limited or not warranted.

For example, the Department of Human Resource Management's receivables are not due until the next fiscal year; as a result, there is no collection process. The majority of the State Lottery's receivables are a part of the agency's normal sales cycle and Lottery collects these funds electronically from lottery retailers each week, thus there is a limited collection process.

Receivables due from the federal government total \$433 million and make up 23 percent of the Commonwealth's total receivables, and require no collection process, other than billing the federal government. The Commonwealth's receivables due from the federal government include all of the receivables reported by the Department of Education – Aid to Localities, 70 percent of the receivables reported by Transportation and 57 percent of the receivables reported by Virginia Tech. Due to the nature of the receivables at the Department of Human Resource Management, Department of Education, and the State Lottery we did not review the best practices for these agencies as the collection process is limited or not warranted.

We identified the following general best practices for managing and collecting past due accounts. Below we have discussed the best practices identified during our research.

- Develop written policies and procedures.
- Train all appropriate staff on the established policies and procedures.
- Establish reasonable caseloads.
- Offer a variety of payment options.
- Make contact with the debtor within 30 days of due date.
- Institute a variety of collection techniques.

Develop and Document Policies and Procedures

The Commonwealth Accounting Policies and Procedures Manual (CAPP) requires agencies and institutions to develop and implement policies and procedures that adhere to the collection policies and guidelines established by the Attorney General and the Comptroller. According to the

CAPP manual, agencies should communicate their policies and procedures through manuals, handbooks, or other media.

Documented policies and procedures are essential as they provide a framework for the accounts receivable administration process. There are many tasks involved in administering accounts receivables and documenting these tasks will help ensure agencies have a consistent basis for managing receivables. Turnover causes a loss of knowledge, consequently having written policies and procedures helps agencies retain information that would be lost otherwise. Without written policies and procedures, agencies risk losing knowledge which can lead to the ineffective and inefficient administration of the agency's receivables.

Documented policies and procedures will vary by agency and the type of receivable, however we believe that agencies should include in their policies the process for preparing and sending timely bills, the process for collecting past due accounts including following up on delinquent accounts, and the process for making adjustments to write-off past due accounts. During our review we found that the Commonwealth's agencies' policies and procedures include the above items.

Training

Agencies should provide adequate training to all staff responsible for accounts receivable management on the agency's and Commonwealth's policies and procedures and collection techniques. Training can take many forms, from formal group settings to informal on-the-job training. While most agencies target training programs to new employees, agencies should consider requiring that all staff take periodic training to provide updates for collecting past due accounts and updates to the agency's and Commonwealth's policies and procedures.

Providing periodic updates will help employees maintain an awareness of agency policies and help prevent complacency for experienced staff. As policies and procedures change and as new collection techniques occur, agencies should ensure they train staff on these processes. Providing training on agency policies and procedures will also require agencies to review those policies, which may lead to the agency revising outdated policies and procedures.

During our review, we found that all agencies with collections staff conduct some form of training for new and current employees. In addition, in October 2009, the Attorney General's Division of Debt Collection (Division) hosted an informative training for state agencies about the Division's role in the debt collection process. The training provided an overview of the Division's statutory requirements and the services offered by the Division, and helped establish agency's contacts with members of the Division.

Caseload

Agencies using internal collection departments to collect accounts receivables should have reasonable caseloads for collection staff, since excessive caseloads may decrease the overall effectiveness of collection efforts. Agencies need to consider the type of receivable and the collection techniques used to collect the past due receivable. Additionally, agencies should consider

that collection staff should document all actions taken to collect delinquent accounts, since this information helps all individuals attempting to collect on those accounts.

Most individuals working in an agency's internal collections department have other job responsibilities in addition to their collections responsibilities; as a result, the agencies should assign cases so that they can be handled in addition to the employee's other responsibilities. There is no specific number of cases that should be assigned to internal collection staff, however, agencies should continuously monitor caseloads to ensure that appropriate action is being taken on all past due accounts.

Payment Options

Payment options can vary by the type of receivable or by the type of service provided by an agency. Agencies can offer a variety of options, including electronic payments including debits to bank accounts and credit cards, online payments, cash, checks, credit cards, payments by telephone or in person, and payment installment plans. In order to maximize collections, agencies should offer a variety of flexible payment options; however, agencies should first ensure that payment options are cost effective for their agency. Eliminating payment barriers can make collection efforts more successful. Of the agencies surveyed, we found that all agencies offered a variety of payment options, including cash, credit cards, payment installment plans, personal and cashier's checks, money orders, electronic payments, and interagency transfers between state agencies.

Debtor Contact

As accounts receivables age, the likelihood of collecting those accounts decreases; therefore, making timely contact with debtors is essential to collecting past due accounts. Best practices suggest that contact with debtors occur within 30 days of the account's due date. Of the agencies surveyed, we found that all agencies attempt to contact debtors within the 30 day timeframe. Agencies should ensure they document all communication and actions taken during the collections process.

Collection Techniques

Offering a variety of collection techniques can increase the likelihood of collecting past due accounts. Section 2.2-4806 of the Code of Virginia requires agencies to take appropriate and cost effective action to aggressively collect their accounts receivable. As we discuss below, either the Attorney General's Division of Debt Collection (Division), the debt set-off programs, or private collection agencies handle current collection efforts.

Additionally, once a judgment is obtained, agencies can garnish debtors' wages, and place liens against debtors' assets in an effort to collect the funds due. While these techniques are options, they require agencies to have legal representation which may not be cost effective for the agency; however, agencies can utilize the Division of Debt Collection, which has the authority to use these techniques. Outside collection agencies do not have the authority to initiate legal action on behalf of agencies.

Division of Debt Collection

According to the Code of Virginia, the Division is to provide all legal services and advice related to the collection of funds owed to the Commonwealth. The Division collects delinquent accounts for state agencies, state-supported institutions of higher education and their hospitals. Our interim report includes detailed information on the role of the Division and how they manage receivables. As of June 30, 2010, the Division provided debt collection services for 49 agencies for over 12,400 cases and was pursuing collection for over \$130 million of receivables. During the year the Division collected over \$10.3 million on behalf of agencies.

Agencies must forward accounts receivable that are at least \$3,000 and 59 days past due to the Division. Agencies can either employ an outside collection agency or the Division to collect all receivables under \$3,000 and more than 59 days past due. However, if the federal government sets the collection requirements, an agency or institution may elect to retain the accounts in-house longer than 59 days. If the debtor is making periodic payments, the agency may elect to retain the claim. Agencies can exhaust internal collection efforts and outside collection agencies before sending the claim to the Division; therefore in some cases when the agency submits a claim to the Division, it is already significantly over 60 days past due and chances of ultimately collecting the receivable are low. The General Assembly has authorized the Division to use outside collection agencies for smaller debts.

There are some exceptions to using the Division, one of which is the collection of child support payments, which the Department of Social Services' Division of Child Support Enforcement (Child Support Enforcement) collects. As of June 30, 2010, there were more than 359,300 current and past due cases, totaling over \$365 million related to child support payments due to custodial parents. There are over 700 Child Support Enforcement staff working these cases. Social Services does not use the Division to collect these past due accounts. The Division of Child Support Enforcement provides and supervises legal services in child support enforcement cases to establish, obligate, enforce, and collect child support. Child Support Enforcement uses various means to locate non-custodial parents including license, passport, and cell phone records. In order to collect payments, Child Support Enforcement uses federal and state debt set-off programs, as well as judgments, liens, and garnishments.

Another exception is the two state teaching hospitals, the Virginia Commonwealth University Health System Authority and the University of Virginia Medical Center (Medical Center), which have the option of collecting their accounts receivable by contracting with outside attorneys and collection agencies or the Division of Debt Collection. The teaching hospitals have the ability to independently compromise, settle, and discharge accounts receivable claims. Our review included the Medical Center, which uses the Division in contested General District Court litigation, circuit court litigation, and some and lien reduction matters. The Medical Center, outside collection agencies, or outside counsel handle all other receivable matters.

Of the agencies reviewed, there were several agencies in addition to the Department of Social Services and the teaching hospitals that do not use the Division of Debt Collection. The Information Technologies Agency does not utilize the Division or many of the other collection techniques discussed since most of their receivables are due from other state agencies and local governments.

As a result of restructuring, some higher education institutions can implement their own collection processes and are exempt from using the Division. The University of Virginia does not submit past due accounts to the Division; however, they utilize the Division for general guidance on legal matters. Virginia Tech does not submit past due accounts to the Division; rather, the university received permission from the Division to utilize a law firm specializing in collections to act as their agent. As a last resort, Virginia Tech submits accounts returned as uncollected from private collection agencies that exceed \$1,000 to the law firm. Virginia Commonwealth University has the authority to only utilize the Division for receivables that are more than \$15,000. These universities utilize internal resources and several outside collection agencies to collect past due accounts.

Since the Lottery Department requires their customers to obtain surety bonds, the Lottery Department only consults with the Division on broad issues such as bankruptcies and retailer agreements. The Virginia Employment Commission (Employment Commission) has sole responsibility to collect receivables related to unemployment taxes due; therefore, they use internal resources to collect those receivables. The Employment Commission only submits benefit overpayments to the Division of Debt Collection.

Debt Set-off

Taxation and Accounts also administer the Commonwealth's Debt Set-off Collection Act, which consists of the Individual Set-off Debt Collection Program and the Comptroller's Vendor Set-off Debt Collection Program. The Individual Set-off Program allows all branches of state government and localities to intercept payments from tax refunds and Lottery prizes that the retailer does not pay directly. The Individual Set-off Debt Collection program requires that entities owed money report the amount owed to Taxation. The Comptroller's Vendor Set-off Debt Program only allows state agencies to use the program to intercept vendor payments to offset debts that the vendor owes to state agencies. The Comptroller's program does not intercept payments to vendors that relate to wages, salaries or federal grants to students. Daily, prior to Accounts issuing vendor payments, Accounts forwards the information to Taxation, who matches the vendor payment, tax refund, or Lottery prize against debts owed based on the debtor's social security number or employer identification number.

Under both programs, once there is a match, Taxation notifies the appropriate entity that funds are available. Within ten calendar days the entity must notify the debtor that they are holding the funds to satisfy a debt. Additionally, the entity must notify the debtor that they have 30 calendar days to contest the holding of funds to satisfy the debt. If the debtor does not contest the holding of funds, the entity has 60 calendar days to notify Taxation of their intent to take all, part, or none of the funds to pay the outstanding debt. If the entity does not notify Taxation within 60 days, the entity forfeits their rights to any of the funds to satisfy the debt.

Taxation has a priority for processing claims based on the agency priority and the date Taxation validated the claim for the participating year. The priority listing is as follows: Department of Taxation, Department of Social Services, Child Support Enforcement, state agencies, authorities, boards, and courts, local Department of Social Services, and counties, cities, towns, and local authorities.

The agencies submitted claims for participating year 2009 between November 1, 2008, and December 31, 2009, and are eligible to receive monies available from January 1, 2009, through December 31, 2009. Each year agencies have to resubmit claims for the program. During 2010, agencies submitted over \$1.4 billion in claims to the set-off program and over \$16 million were collected.

In addition to the Commonwealth's Debt Set-Off programs, the United States Department of the Treasury offers a Treasury Offset Program where an authorized state entity can intercept federal payments to reduce or offset child support obligations or state income tax debt. The Department of Taxation and the Department of Social Services Division of Child Support Enforcement are the only agencies who can use this program; however, the Comptroller can enter into an agreement to participate in the Treasury Offset Program for the collection of any debts owed to state agencies. Currently the Comptroller has not executed this agreement.

Private Collection Agencies

Agencies can use private collection agencies to collect accounts receivables unless it can be shown that it is not cost effective or in violation of federal regulations. The Division of Purchases and Supply has awarded a statewide contract to NCO Financial Systems, Inc. (NCO) for collection services; however, use of the contract is voluntary for agencies, as agencies can establish their own contract through competitive procurement procedures. As of June 30, 2010, private collection agencies were assigned over \$230 million in receivables and during the fiscal year collected over \$9 million.

In general, NCO receives overdue accounts receivable that are less than \$3,000 per account, unless a particular agency or institution receives a waiver by the Division of Debt Collection. The Division of Debt Collection may assign to NCO overdue accounts receivable less than \$15,000 per account. The varying types of delinquent accounts submitted to NCO include outstanding tuition receivables, state and federal receivables (e.g., Perkins loans, Nursing Student Loans), child support payments, tax accounts, overpaid benefits, library fees, salary overpayments, utility charges, returned checks, damage fees, conference and hotel charges, pharmacy and medical charges, short-term emergency loans, and other miscellaneous items. NCO attempts to collect past due accounts by sending demand letters, making telephone calls, performing skip tracing, and utilizing credit reporting services. The contract allows NCO to retain accounts with no collections for no longer than 12 months from the date of referral or date of last payment, whichever is later, or as mutually agreed to by NCO and the agency. At the end of this period, NCO should request further instructions from the agency. NCO receives a percentage of the amounts recovered as compensation.

Commonwealth of Virginia Non-Tax Collections Strategic Study

The Comptroller initiated a study to evaluate the opportunities and feasibility of improving the collection and management of delinquent non-tax government debts within the Commonwealth. CGI performed the study and issued results in a report dated May 7, 2010. CGI recommended several improvement opportunities that included centralizing the collection of non-tax debt, technology enhancements, best management practices, and policy changes. According to CGI, together these recommendations have the potential to provide net revenue over a ten year period

ranging between \$32 and \$65 million for the agencies studied. This amount is after implementation costs, set-up, and ongoing debt collection services, but excludes project governance costs. Collection of the past due receivables does not represent a new revenue stream for the Commonwealth's General Fund. Additionally, the net revenue amounts do not address how much, if any, of these collections are due to parties outside of the Commonwealth.

Centralizing Collections

Currently, each agency manages their own receivables and implements processes that are in line with the requirements of Code of Virginia and the CAPP Manual. As such, there is the potential that agencies are duplicating collection processes, resulting in inefficiencies. Therefore, CGI recommended that the Commonwealth centralize collections of non-tax debt in one organization, a Collections Service Center (Service Center), administratively placed in the Finance Secretariat. Specifically CGI recommended outsourcing the collections functions where they, CGI, would perform the collections management function. According to CGI's study, this process would allow for economies of scale and provide a department dedicated to collecting all non-tax debts. While consolidating or outsourcing the collection of accounts receivables could provide some benefits, the Commonwealth should evaluate whether such a process would be beneficial and cost effective. Specifically, the Commonwealth would need to evaluate which accounts receivable would be part of this collection process versus those that are cyclical in nature.

Technology Tools

CGI recommended enhancing the technological tools used during the collection process. As a part of the Service Center, CGI suggested that the Commonwealth adopt a single case management system that allows for the consolidation of debts in a single case. Additionally, CGI recommended that the Commonwealth improve information sharing and access through a central data warehouse. Implementing these technological tools could benefit the agencies even without the creation of a Collections Service Center. Since agencies currently act independently in the collections process, these recommendations would result in more effective collection efforts by individual agencies; however, the Commonwealth would need to determine how to best develop and implement these efforts. In addition, the Commonwealth would need to determine if there are any restrictions preventing them from sharing certain data between agencies.

Best Management Practices

CGI recommended the implementation of three best practices which include improvements in initial case assignment criteria, outside collection agency management, and correspondence. CGI suggests that the Service Center would more adequately determine initial and ongoing case placement; in addition, they would determine the collection tools that maximize collections.

According to the report, the Service Center can provide better management of outside collection agencies. Specifically the Service Center would consolidate managing and monitoring the outside collection agencies into a single point, establish an outside collection agency's program management office responsible for managing various aspects of assigning cases to outside collection agencies, engage multiple outside collection agencies to encourage competition, and use secondary

and tertiary assignments once cases have been returned uncollectible. While the Commonwealth's agencies can charge the outside collection fee back to the debtor, the CAPP Manual dictates criteria that agencies must meet in order for this to take place. CGI recommends that the Commonwealth's policies require all agencies to impose the outside collection agencies' fees back on the debtors.

Lastly, CGI recommended that the Commonwealth improve correspondence sent to those individuals who owe monies to the Commonwealth. Agencies should consider issuing letters that are free from legal jargon and easy to understand, clearly outlining the actions that a debtor must take to repay funds. Additionally, the report recommends that the Commonwealth reduce the number of letters issued and shorten the length of time between letters.

Statutory and Policy Changes

CGI recommended that the Commonwealth create statutory authority to collect non-tax government debt with the full legal authority and tools available for tax obligations. This includes legal authority to grant an agency the capability to generate administrative levies without having a judgment in place. CGI reported that currently, only Social Services, the Virginia Employment Commission, and the Department of Taxation have access to enforce these tools. CGI's recommendation specifically suggests that the Commonwealth pass legislation to grant the agency housing the Collections Service Center the authority to manage the issuance of bank, property and wage levies on behalf of other agencies; however, the Commonwealth would benefit from these statutory changes even without the creation of a Collections Service Center. As with any collection technique, the Commonwealth's agencies would need to determine when administrative levies are most appropriate. For example, in cases where the debtor is indigent, administrative levies may not be an appropriate collection technique.

CGI also recommended that the Commonwealth apply more aggressive techniques to collect written-off debts. Currently, written-off debts are collected through the Commonwealth's debt set-off programs. Lastly, CGI recommended that the Commonwealth extend professional and commercial license revocation authority to state agencies.

RECOMMENDATIONS FOR IMPROVEMENT

There is an opportunity for the Commonwealth to improve the administration of accounts receivables. Below we have discussed our recommendations for improvement.

Evaluate the current collection process

Various entities currently have responsibility for collection efforts, which could lead to a lack of effectiveness, efficiency, and consistency. Individual state agencies, the Office of the Attorney General's Division of Debt Collection, and the Department of Accounts all play an integral part in managing the Commonwealth's receivables. While effective communication between all parties is essential, currently entities do not regularly share or exchange information or coordinate resources, which may cause a duplication of efforts, reducing the collection efforts of outstanding receivables. The Commonwealth should evaluate the current collection process to determine if they can realize any process efficiencies.

Agencies should look for ways to share resources and information to assist in collecting past due receivables. Agencies should evaluate their collection processes to ensure that they are adequately using the resources available to them including using private collection agencies, the Division of Debt Collection, and the debt set-off program. Additionally, the Commonwealth should determine if it is cost efficient to have multiple collection service contracts or whether state agencies should operate from one contract.

Determine if the Treasury Offset Program Would Be Beneficial

Currently, the Comptroller could enter into an agreement with the United States to participate in the Treasury Offset Program for the collection of any debts owed to state agencies. The Comptroller has not executed this agreement; therefore, the Treasury Offset Program is only available for child support obligations and state income tax debt. The Comptroller should take the necessary steps to determine if the Treasury Offset Program would be beneficial for the Commonwealth. This would require a joint effort between the Comptroller and the Department of Taxation since there would be costs associated with implementing and participating in the program.

The Commission on Government Reform and Restructuring (Commission) has also been reviewing the Commonwealth's accounts receivable collection process and in their October 15, 2010, Interim Report to the Governor made several recommendations for improving the collection of accounts receivable that are consistent with the above recommendations.

INTERIM RECOMMENDATIONS FOR IMPROVEMENT

The following recommendations were part of our interim review. In response to our recommendations, Accounts has update its Quarterly Report by including wording modifications to better describe the collectability of receivable balances and eliminate confusion related to the source of tax collections. At this point, Accounts has not made additional changes to the tables included in the Quarterly Report.

Improve Accounts Receivable Analysis and Reporting

While the Quarterly Report contains a significant amount of detail and analysis of the Commonwealth's receivables, more comprehensive information on agency receivables would enable a user to understand the nature of the Commonwealth's receivables and whether collections would result in additional funding for the Commonwealth. In preparing our report, we obtained additional information and detail from agencies in order to identify the composition of their receivables. Further development and clarification of some items would enhance the information, making it more useful for users. As an alternative to expanding the information in the Quarterly Report, Accounts could evaluate whether a different reporting mechanism would be more effective for providing more comprehensive receivables information.

- **Identify current receivables** – The Quarterly Report does not specifically show the Commonwealth's current receivables. The reader can calculate current receivables using information from a number of available charts; however, it may be more meaningful for the reader if Accounts clearly distinguished this information. Highlighting current receivables is important since this represents the amount the Commonwealth is more likely to collect than those amounts already past due.
- **Clarify receivables available for Commonwealth use** – Currently, the Quarterly Report shows collectible receivables without regard to any restriction on the use of collected amounts. For example, the collection of past due Child Support Enforcement funds will provide little in the way of operating funds to the Commonwealth. Further, the collection of federal grants and contract accounts only reimburses for amounts already spent. While management and timely collection of these accounts is important, the current report makes it appear that these collections could provide additional resources to fund the Commonwealth's operations.

Further, the current presentation does not provide an indication of the collection efforts needed to collect funds. Trying to collect SNAP or TANF benefits from someone who inappropriately obtained benefits is a more significant receivables management problem than collecting delinquent federal grants or contracts. Improper benefit collections will potentially include criminal proceedings and may involve someone with little or no assets to make payment. Also, reporting delinquent accounts over a year old is an important measure of collection efforts. However, if an agency such as Social Services cannot write accounts off and the aging category includes accounts up to 30 years old, then the true measure of the collections effort is distorted.

- **Evaluate and expand information reported** – Accounts should evaluate the current report to determine if additional information and explanations would make the report more transparent. Information in the Quarterly Report and in the web-based accounts receivables system does not provide sufficient detail on the types of the agencies' receivables. While adding more detail and clarification to some of the information reported would prove beneficial, there is also the opportunity to include additional reports that may be beneficial.

The "Receivable Trend Data" section of the report presents two charts that show the percentage of gross receivables over 60 days past due and collections as a percentage of billings. A chart trending receivables balances over several quarters could help visually demonstrate how different agency business cycles cause a fluctuation in receivable balances due to timing issues. The report includes a brief narrative addressing this issue; however, it may be more useful to see specifically at different agencies their cyclical receivable patterns, especially in the case of higher education institutions.

In addition, the Quarterly Report suggests that agencies retain the vast majority of receivables over 60 days past due. A chart that shows the total amount of receivables outstanding with a balance of \$2,999 or less versus those with a balance of \$3,000 or greater for each of the agencies with the highest receivables balances would help clarify whether agencies are following the Code of Virginia's requirement to submit overdue receivables to the Office of the Attorney General. This could also be useful for the Attorney General's office to reference, so that they can ensure that agencies are submitting all past due receivables to them in accordance with Code of Virginia requirements.

- **Expand information on Taxation and the Courts** – Currently, the Quarterly Report provides a brief explanation of why Accounts has excluded Taxation and Courts, despite the fact that their receivables make up a large portion of the Commonwealth's receivables. Accounts should provide a more thorough explanation of why the report excludes these agencies, as well as, include further detail on what makes up these receivables.

For example, Taxation receivables are due from individuals and corporations and in some instances the receivables use assessments that are not actually due to the Commonwealth. Similarly, the description of the court receivables does not distinguish whether the amounts are for fees or restitution payments, or if they could be due to individuals as a result of a judgment, in which case they are not technically Commonwealth receivables. Accounts could expand the discussion of the likelihood of collecting these agencies receivables to explain why it is unlikely that the Commonwealth will collect the majority of these receivables.

- **Clarify Interagency Receivables** – The Quarterly Report includes interagency receivables in the "Collection Receivables by Fund" chart. It is unclear if interagency receivables are included or excluded from the remaining charts and graphs included in the report. Since interagency receivables represent funds due between state agencies, it

would be useful to present a summary of amounts that are due between agencies and an explanation of what these receivables are and why they are past due.

- **Expand receivables explanations** – Currently, the Quarterly Report includes a section entitled “Commonwealth Receivables Analysis” that describes agency collection programs and related trend information. Accounts should consider expanding this section to include an explanation of what the receivable balances consist of and the probability of collection. While some agency’s sections include what the receivables consist of, the report does not include this information for all agencies and the report does not address the probability of collecting the receivable.

In addition, this section of the report currently summarizes what the agency does and it also summarizes the total receivables for the current period in relation to the prior period. Accounts should provide more detail explaining why variances have occurred from one period to the next and include information on what the agency’s collection program entails.

- **Clarify instructions to agencies** – Accounts provides instructions regarding receivables in the CAPP Manual and in the Financial Statement Directives. Accounts should review instructions to ensure consistency with both instructions. This consistency will ensure that agencies are reporting the same information for both processes. Currently, some agencies report information differently for the quarterly receivables submission and for the financial statements. Additional guidance should clarify what agencies should include or exclude when they report receivables in the quarterly receivables submission versus receivables reported for financial statement preparation.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

November 9, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the Collection of Commonwealth Accounts Receivable and are pleased to submit our report entitled **Collection of Commonwealth Accounts Receivable**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our objectives in our audit of the Collection of Commonwealth Accounts Receivable were to:

1. Determine the roles of central agencies in the receivables process including the Attorney General – Division of Debt Collection, Department of Accounts, and Department of Taxation.
2. Determine the various classes of receivables collected by the various Commonwealth agencies and institutions.
3. Determine current practice for utilizing in-house collection efforts versus outsourcing the collection of receivables.
4. Evaluate current methods for reporting receivables.
5. Determine best practices agencies should follow for managing and collecting their receivables including extending credit, billing and collection, appropriate reporting, and determining the collectability of each receivable class.

6. Make recommendations for the improvement of the management and reporting of the Commonwealth's receivables.

Our interim report primarily addressed objectives one through four and six, and is available on our website at www.apa.virginia.gov. This final report addresses objectives five and six.

Scope and Methodology

In conducting this audit, we researched the Code of Virginia, the Commonwealth Accounting Policies and Procedures Manual, and the Virginia Debt Collection Act for agencies' roles in collecting and reporting accounts receivables. We obtained information through correspondence with agencies, reviews of policies and procedures, and reviews of information documented during the agencies individual audits. We obtained receivables balances from the Department of Accounts' web-based accounts receivables system. Agencies provided additional detail regarding the composition of their accounts receivable. We used the detailed information to compile the receivable balances by type. We obtained information on best practices from reviews of literature on the collection of accounts receivable and reviews of best practices used by other states to collect accounts receivable.

Summary

The interim report identifies that, of the agencies reviewed, most amounts due and collected by the Commonwealth are part of agencies' and institutions' normal operations and will not provide the General Fund of Commonwealth substantial resources. The report also recommends several changes which would enhance a reader's understanding of the amounts due and the ability to monitor the collections of the various agencies and institutions involved in the generation and collection of these receivables.

In our final report, we found that generally the agencies reviewed have implemented the identified best practices. However, we identified some opportunities for the Commonwealth to improve the administration of accounts receivables. Currently, individual state agencies, the Division of Debt Collection and private collection agencies are responsible for collecting the Commonwealth's outstanding receivables. Because the collection process is decentralized across individual state agencies, we believe there is an opportunity for the Commonwealth to improve the administration of accounts receivables. The Commonwealth should evaluate the current collection process to determine if there are any process efficiencies that can be realized.

In addition, the Comptroller should work with the Department of Taxation to determine if participation in the Treasury Offset Program is beneficial to the Commonwealth. While the program would provide an additional avenue to collect past due receivables, there would be costs associated with implementing and participating in the program.

Exit Conference and Report Distribution

We provided this report to the Departments of Accounts on November 12, 2010. Their response has been included at the end of this report. We did not audit their response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH:alh



COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

November 30, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, VA 23219

Dear Mr. Kucharski,

The Department of Accounts (Accounts) appreciates the opportunity to respond to the review of the Commonwealth's accounts receivable. Your recommendations are appreciated, and Accounts gives them the highest level of importance and consideration as we continue to review and improve our current practices.

While you note the current Quarterly Report contains a significant amount of detail and analysis of the Commonwealth's receivables, we concur that the implementation of your recommendations would provide additional useful information to decision-makers. Some of the information you recommend reporting has been included in our reports in the past. However, in 2003 Accounts was forced to make some difficult choices due to budgetary constraints. One of these choices resulted in reductions in the analysis and reporting of quarterly accounts receivable data. However, Accounts plans to reconsider the merits of quarterly versus annual reporting of receivables information in hopes of targeting resources to improve reporting.

Thanks again for the opportunity to comment on your report.

Sincerely,

A handwritten signature in black ink, appearing to read "D. A. Von Moll".

David A. Von Moll

DEPARTMENT OF ACCOUNTS

David Von Moll, State Comptroller

OFFICE OF THE ATTORNEY GENERAL, DIVISION OF DEBT COLLECTION

Kenneth T. Cuccinelli, II, Attorney General

APPENDIX A

Accounts Receivables Aging by Agency
As of June 30, 2010

	<u>Social Services</u>	<u>UVA Medical Center</u>	<u>Transportation</u>	<u>Education</u>	<u>Employment Commission</u>
Current	\$265,001,474	\$191,496,734	\$167,912,673	\$255,402,435	\$103,191,700
30 days	1,045,539	47,068,421	2,343,166	-	3,064,451
31-60 days	1,018,730	19,464,622	2,067,363	-	3,806,835
61-90 days	1,005,326	11,460,604	(125,469)	-	11,860,909
91-120 days	1,125,965	7,523,185	1,688,811	-	2,106,801
121-180-days	2,198,313	2,727,660	(50,055)	-	4,935,173
181-1 year	6,380,907	8,631,381	6,675,058	-	11,767,181
Over 1 year	<u>121,271,302</u>	<u>5,147,160</u>	<u>10,365,675</u>	<u>-</u>	<u>27,343,675</u>
Total	<u>\$399,047,556</u>	<u>\$293,519,767</u>	<u>\$190,877,222</u>	<u>\$255,402,435</u>	<u>\$168,076,725</u>

	<u>Medical Assistance Services</u>	<u>Behavioral Health</u>	<u>Virginia Tech</u>	<u>Lottery</u>	<u>UVA Academic</u>
Current	\$61,844,470	\$25,181,302	\$38,648,624	\$56,067,817	\$42,646,535
30 days	5,451,113	3,240,280	3,351,952	104,624	6,065,840
31-60 days	2,347,342	2,154,889	964,896	75,520	3,923,853
61-90 days	4,967,911	1,361,411	307,441	48,654	3,149,594
91-120 days	4,366,671	1,809,428	420,037	15,017	1,045,055
121-180-days	3,913,276	2,430,703	394,350	38,541	828,526
181-1 year	5,564,254	5,117	736,291	46,515	2,699,380
Over 1 year	<u>18,599,823</u>	<u>1,811,258</u>	<u>1,520,959</u>	<u>75,296</u>	<u>748,747</u>
Total	<u>\$107,054,860</u>	<u>\$37,994,388</u>	<u>\$46,344,550</u>	<u>\$56,472,984</u>	<u>\$61,107,530</u>

	<u>VITA</u>	<u>Human Resource Management</u>	<u>VCU</u>	<u>Total</u>
Current	\$23,681,934	\$31,553,227	\$22,660,169	\$1,285,289,094
30 days	829,921	1,228	535,909	73,102,444
31-60 days	676,898	2,500	2,305,742	38,810,190
61-90 days	590,916	4,772	133,987	34,766,056
91-120 days	2,687	-	9,796	20,113,453
121-180-days	539,014	117	4,681	17,960,299
181-1 year	1,378,234	29,926	2,313,722	46,227,966
Over 1 year	<u>1,648,497</u>	<u>60,225</u>	<u>2,158,730</u>	<u>190,751,347</u>
Total	<u>\$29,348,101</u>	<u>\$31,651,995</u>	<u>\$30,122,736</u>	<u>\$1,707,020,849</u>